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Pensions & Investment Age

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State seeks proxy vote disclosure

By Marcia Parker

SACRAMENTO, Calif. — The California Legislature is considering a far-reaching bill that would require investment managers, master trustees and others who act in a trust capacity in the state to make public their proxy voting records — and more.

Slated for the first round of debate in the state Senate Judiciary Committee May 12, the trustee bill has been proposed at a time when the spotlight is on voting rights and practices during this proxy season.

The bill is contained in a broad package of proposals dealing with corporate governance issues, takeover abuse protections and insider trading, according to Dick Damm, senior consultant in the state Senate Office of Research.

The package comes on the heels of the U.S. Supreme Court's landmark decision upholding an Indiana law curbing takeovers.

Corporate governance experts, lawyers, academicians and government officials have predicted the high court's ruling will open the floodgates to other states eager to adopt laws that will slow hostile takeovers and bolster shareholder rights.

If the trustee bill is approved, these experts say it could serve as model legislation for other states. The trustee bill is believed to be the first in the nation that requires public disclosure of voting records.

Traditionally, corporate pension funds have delegated the proxy voting authority to the investment manager or master trustee, whose voting records rarely were made public.

Public pension funds, on the other hand, historically have retained the voting authority and have been more willing to make public the vote.

The push for disclosure of voting records has come from several groups. But not everyone thinks that is the best remedy.

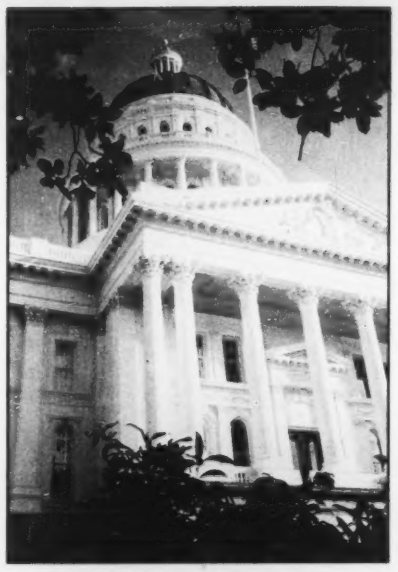
Robert Monks, who heads Institutional Shareholder Services, a shareholder rights group in Washington, said public disclosure would go a long way toward ending the real or perceived pressure on investment managers and trustees to vote with management. Mr. Monks, who helped draft the bill, hopes other states will follow California's lead if it is passed.

A recent study of the proxy voting process by the Investor Responsibility Research Center in Washington included disclosure among the many recommendations made by those it surveyed. IRRC Director Jamie Heard said he endorses the trustee bill.

Dean LeBaron, president, Batterymarch Financial Management, Boston, which is well known for making public its voting record in advance, hailed the bill.

"I am a fan of disclosure," he said. "We endorse it because it would make everyone who has the voting authority — investment managers, plan sponsors, trustees — accountable publicly."

Most money managers and master trustees contacted by *Pensions & Investment Age* said they grudgingly backed the bill



The California Legislature has proposed a bill requiring trustees to disclose proxy voting records.

but were concerned with what they believe will be costly and time-consuming record keeping and reporting duties.

Masako Dolan, director of policy and planning for the trustee bill's sponsor, state Sen. John Garamendi, said the Los Angeles County Bar Association had objected mainly to the record keeping and reporting burden.

Ms. Dolan said the bill has been amended to delete a requirement that the trustee report the voting records to the state Department of Corporations, which she thinks will alleviate much of the concern.

The California Bankers Association has voted to oppose the measure.

Mr. Damm said most money managers or master trustees probably would avoid taking a public stand against disclosure. "Who can be against disclosure?" he asked.

T. Boone Pickens and his United Shareholders Association in Washington, however, have backed secret balloting. But Ralph Whitworth, a spokesman for the association, said the group "supports anything that makes the system more accountable."

Mr. Garamendi's bill would force money managers and trustees to keep voting records for three years, notify beneficiaries of their voting record and their rationale, identify conflicts of interests in their votes and contacts with boards of directors.

The bill defines a trustee as any sole proprietorship, partnership, corporation or similar entity that solicits or accepts trust business in the state from the general public for remuneration and has or controls more than 100 trusts or one or more com-

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TACKLING NEW FIELDS: Former New England Patriots offensive lineman John Hannah (No. 73) is making the move from the playing field to the business world at L.F. Rothschild Unterberg Towbin Inc. in Boston — Page 24.

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Court rules life insurer is fiduciary of IPG assets

By Joel Chernoff

HARTFORD, Conn. — In a blow to the life insurance industry, a federal district court has ruled an insurer is a fiduciary under ERISA with regard to assets underlying an immediate participation guarantee contract.

The case involves an IPG held by the International Brotherhood of Electrical Workers Local Union No. 90 pension fund, Wallingford, Conn., purchased from the John Hancock Mutual Life Insurance Co., Boston.

Assets underlying insurance contracts that provide a "guaranteed benefit" generally have not been considered plan assets under the Employee Retirement Income Security Act if the assets are held in an insurer's general account.

The Connecticut decision puts insurers "in an untenable position," said Stephen Kraus, senior associate general counsel for the American Council of Life Insurance, Washington.

State insurance laws prohibit insurers' favoring any contract holder, yet the ruling would force them to simultaneously meet ERISA's requirement of acting in the exclusive benefit of plan participants and beneficiaries, he explained.

"It's impossible for an insurance company to act exclusively in the benefit of (an individual) contract holder," said Stephen Goldberg, counsel for Aetna Life & Casualty Co., Hartford, Conn.

But lawyers for retirement funds disagree. "Congress did not intend that every insurance contract be exempt from ERISA," said Nell Hennessy, a partner with Willkie Farr & Gallagher, a Washington law firm, which represented U S WEST Inc., Englewood, Colo., in an IPG-related suit against Aetna.

IPG contracts are open end, with no maturity. If a retirement plan seeks to terminate one, it can be slapped with a "market value adjustment" or face lengthy payouts with low interest rates if it selects a book value payment option. Some retirement funds have asserted they have been hit with "hidden charges" when ending the contracts.

The problem became particu-

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AMAX taps pension fund again

By John Covaleski

GREENWICH, Conn. — AMAX Inc.'s pending plan to recapture $54 million in surplus pension assets will be the company's eighth pension plan termination since 1985, when it began a restructuring aimed at reducing its debt, now more than $2 billion.

AMAX has recaptured a total of $147.3 million in nine separate pension plan terminations since 1983, according to the Pension Benefit Guaranty Corp. That includes a 1983 spinoff/termination — one of the first done — in which $124 million was recaptured, of which $80 million was reported in 1986.

Money from each of the terminations has been used to either help pay off existing debt or to reduce borrowing needed for acquisitions made as part of the restructuring, said a spokesman in AMAX's corporate finance office.

The pending termination is for the $130 million defined benefit plan for salaried employees that was spun off in 1983.

The company plans to substitute a money purchase plan for the salaried defined benefit plan, proposing an April 30 termination (*Pensions & Investment Age*, March 9). A money-purchase plan is a form of defined contribution

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IBM buys $440 million GIC

By Fred Williams

IBM Corp., Stamford, Conn., has purchased a $440 million guaranteed investment contract for its employee savings plans from the Travelers Insurance Co., Hartford, Conn., one of the largest GIC deals in two years.

The $440 million window contract is part of nearly $600 million in new savings plan contributions that IBM put out to bid among GIC providers. Home Life Insurance Co., New York, and The Hartford Insurance Group, Hartford, received smaller allocations.

Although GIC rates are rising, one GIC broker said the IBM contracts were negotiated before the run-up in GIC yields, so IBM likely will experience lower overall returns. Yields have increased more than 100 basis points in the past three to four weeks on some five-year GICs, coinciding with the slumping and volatile bond market.

IBM officials refused to discuss any aspect of the GIC purchases, confirming only that the company's two savings plans had combined GIC assets of $849 million in 1985.

Industry sources familiar with the deal said IBM purchased an intermediate-term window GIC yielding about 60 basis points over intermediate-term Treasury securities. The contract begins July 1. Contributions will be accepted for six to 12 months, then will be locked in for the balance of the maturity period.

Another large GIC investment was made this year by ITT Corp., New York, with a newly formed GIC management unit at Bankers Trust Co., New York.

ITT purchased a $200 million GIC through the new unit formed in October. Its purchase makes up a sizable portion of the nearly $500 million under management in the unit. Bankers Trust manages the GIC portfolios on a separate account basis with PRIMCO, a Louisville, Ky., GIC investment specialty firm, said Richard Kaye, manager-structured bonds at Bankers Trust.

Rates on five- or six-year GICs are in the 9% range, said Mr. Kaye.

Yields on GICs now are "unbelievable," said John Knight, president of Lamberson Knight GIC Inc., Short Hills, N.J., as yields have been "gyrating on the way up," keeping pace with the bond market that has been "hammered in the last four weeks."

"GICs are heating up. We're getting a lot more interest now. When you get full percentage point moves, it generates more interest," said Mr. Knight.

GIC rates "are heating up tremendously" said Michael Dubrow, managing partner with Chambers, Dunhill, Rubin & Co., a Beverly Hills investment banking firm. He said top rates now are at 9.36% compounded, up from 8.6% to 8.4% "just a few weeks ago."

Despite the dramatic increase in GIC yields, spreads between GICs and Treasury securities with the same maturities continue to be narrow.

The spread remains in the 100- to 110-basis-point range, Mr. Dubrow said, while "historically spreads have been 130 to 140 basis points over Treasuries."

"Spreads are still down, and have been for a long time, reflecting the difficulty insurance companies are having finding lucrative assets (investments) and, because of the volatility in the bond market, some of them are wisely sitting on the sidelines," he said.

One GIC consultant suggested IBM might have had fewer bidders than expected.

"It presents a problem in terms of capacity for insurance companies, and we are seeing fewer (insurers) willing to bid on $200 million to $400 million cash flows . . . The bigger the amount, the bigger their risk," he said. ■

Textron's Richard A. Watson

Ex-Cell-O managers trimmed

By Trudy Ring

PROVIDENCE, R.I. — Textron Inc., which bought Ex-Cell-O Corp. last year, has terminated Alliance Capital Management Corp., New York, and one other equity manager of the Ex-Cell-O pension fund and transferred the assets, roughly $144 million, to Textron's investment subsidiary.

Also, Jack A. Stone, the Ex-Cell-O assistant treasurer who oversaw the pension fund, has left the company.

Although Richard A. Watson, president of Textron Investment Management Co., declined to identify the managers terminated, a spokesman at Alliance confirmed the firm had been terminated as an equity manager. The spokesman did not reveal the size of the account.

Mr. Watson said the terminated managers ran about 40% of Ex-Cell-O's $360 million defined benefit fund.

The primary reason for the change was that Textron officials favor in-house money management, Mr. Watson said. Of Textron's own $1.6 billion defined benefit fund, $1.3 billion is run in-house.

Further changes in the Ex-Cell-O fund are probable, he said. "The likelihood is that over time, the Ex-Cell-O pension plan will be consolidated with the pension assets of Textron, at least for investment purposes," he said.

The money taken from the two terminated managers is being managed primarily in equities by the Textron subsidiary, Mr. Watson said.

According to the 1987 Money Market Directory, Ex-Cell-O's other equity managers were Batterymarch Financial Management

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Batterymarch cut by 5 more clients

By Marlene Givant and Trudy Ring

BOSTON — Batterymarch Financial Management has lost at least five clients and $190 million in assets so far this year, bringing the firm's loss since the beginning of 1986 to almost $4 billion and 42 clients.

As of Jan. 1, Batterymarch managed $7.7 billion in tax-exempt assets, a 33% drop from the $11.5 billion it reported as of Jan. 1, 1986.

In the first four months of 1987:

- Pan American World Airways Inc. Pilots' Variable Fund, New York, with $568.6 million in assets, pulled its $56.7 million equity account. Of that, $11 million was in the Trustees' Commingled Fund, Batterymarch's mutual fund administered by the Vanguard Group of Investment Cos. Inc.

The assets and new cash were used to fund Ardsley Partners for $25 million in domestic equity, and Alliance Capital Management for $19 million in an active international equities commingled fund. Some assets also were given to Nicholas-Applegate Capital Management; Lord, Abbett & Co.; and GAMCO Investors Inc. The fund had been with Batterymarch at least five years.

- National Fuel Gas Co., Buffalo, N.Y., with $270 million in total assets, pulled $46 million from Batterymarch. The assets were reallocated to existing manager Manning & Napier Advisors, and a new hire, Neuberger & Berman. The money, split $25 million and $21 million, remained in equities. The fund had been with Batterymarch six years.
- The New York Stock Exchange's $100 million retirement plan terminated its $31 million account with Batterymarch at the end of March. One-third of the assets went to existing manager INVESCO Capital Management Inc. and two-thirds to new hire George D. Bjurman & Associates. The NYSE plan had been a client since 1983.
- Pittston Co., Greenwich, Conn., with $200 million in pension assets, terminated its $30 million domestic equity account. Further details weren't available.
- The $125 million pension fund at ENSERCH Corp. Dallas, withdrew its $25 million in assets, putting the money in a stock index fund with Mellon Capital Management Corp.

Funds that dropped Batterymarch in late 1986 included the $1.7 billion Rockefeller Foundation, New York; the $500 million Mead Corp. pension fund, Dayton, Ohio; and the $60 million Mills College, Oakland, Calif., endowment fund. They pulled accounts of $100 million, $35 million and $13 million, respectively (*Pensions & Investment Age*, Nov. 10 and Dec. 22).

After three years of poor performance and the recent defections of five professionals (*P&I Age*, March 23), business is a far cry from Batterymarch's 1984 peak of $12.1 billion in assets under management.

That success came after the firm beat the Standard & Poor's 500 stock index during the often-rough market tides of 1974-79 and 1981-83.

While the firm has shone in bear markets, its returns have suffered in the bull market of the past three years. Last year, the firm's average account returned 16.3%, compared with 18.7% for the S&P 500. In 1985, the return was worse, 23.9% vs. the index's 31.8%, and 1984's return of - 1.2% greatly lagged the index's 6.3%.

Still, some clients note Batterymarch's first-quarter returns are above the index, 21.7% vs. 21.4%, and the firm's average compound rate of return from inception in 1970 through the end of 1986 is 14.2%, compared with the S&P's 11%.

"Over the past 17 years, we have gained more extra return vs. the market averages in falling markets than we have in rising markets," Dean LeBaron, founder, wrote in the firm's 1986 annual report. "Since we are now in the fifth year of one of the most exuberant bull markets in the last half-century, it is not startling to find Batterymarch results lagging . . . During 1986, some of our clients lost patience and shifted assets to other approaches."

Batterymarch's returns began to rebound in mid-1986, Mr. LeBaron added in an interview. In

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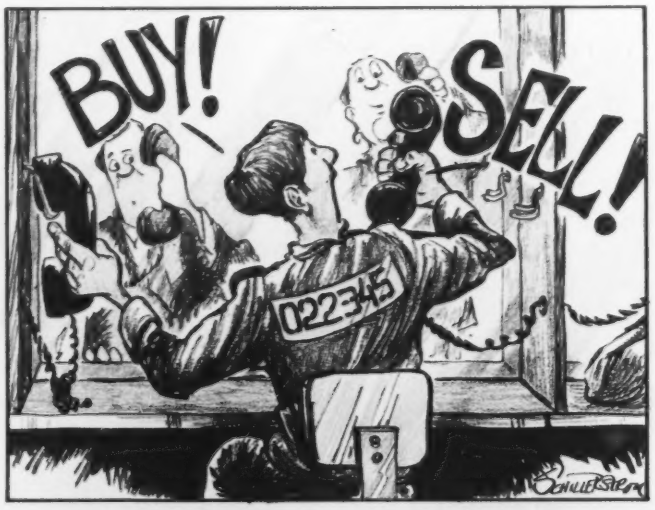

SEC locks up inmate's management service

By Joel Chernoff

CANON CITY, Colo. — Investor Michael David Marant may be giving a new meaning to the term "insider trading."

Mr. Marant picks his stocks from prison.

Nevertheless, he is investing and advising on more than $400,000 from his cell at the Colorado Territorial Correction Facility in Canon City. Last year, his investments in penny stocks and futures returned 24%, compared with 18.7% for the Standard & Poor's 500 stock index.

Unfortunately for Mr. Marant, the Securities and Exchange Commission won't let him run money for others.

"With everyone who is ending up in jail because of insider trading, here's one insider who wants to become" an investor, Mr.

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Crossing network aiming for liquidity

By Chuck Paustian

While the developers of the first electronic crossing network try to boost liquidity and increase efficiency, creators of a second network expect theirs to be operating this month, and Chase Manhattan Bank officials still contemplate establishing a third network.

Despite several, earlier crossing attempts that failed because of lack of liquidity, three pension funds and three money managers crossed about 686,000 shares April 23 through Instinet Corp.'s electronic crossing network.

(Another 373,500 shares were crossed the same day between two institutions that had arranged the transaction themselves.)

The electronic crosses worked, in part, because of a new effort to cultivate both sides of a trade and a new commitment to using the system any day there is sufficient demand, said Edward C. Story, a partner with Plexus Group, Santa Monica, Calif., which markets the crossing network for Instinet.

Institutional investors that previously used or attempted to use the Instinet network generally welcomed the new features.

"Personally, I think it is a very positive move," said Lester T. Brol, a trust officer in the strategic investment group at The Northern Trust Co., Chicago, which was one of the first institutions to use the Instinet network.

"If I'm the person instigating the crossing, I can let the world know I have a vanilla index program I want to do on the system that evening," he said.

Although Northern has tried to use the system a few times, it has had only one successful crossing.

"You just need a massive amount of liquidity to make this thing work and make it attractive to participants," said Theodore R. Aronson, partner of Aronson & Fogler, Philadelphia, whose firm has yet to succeed in crossing.

The crossing network appeals particularly to index fund managers that often have baskets of stock they want to trade but usually aren't active traders.

"A passive fund, unless you're putting money in or taking money out, doesn't need as much trading. We try to trade as little as possible, anyway," said Carl Liebscher, director-investments at Deere & Co., Moline, Ill. About $1 billion of Deere's $2.2 billion pension fund is invested in a passively managed equity portfolio.

Mr. Story said in addition to the system's daily availability (instead of only Wednesdays and the day before the first and 15th of each month), crossing network personnel will try to spark additional activity by eliciting information from participants on whether it's a buy or sell transaction, how many different stock names there are and whether the basket is part of the Standard & Poor's 500 stock index.

Under this approach, if one institution entered a transaction into the electronic crossing, Instinet and Plexus personnel can try to locate the other side of the transaction from among system users.

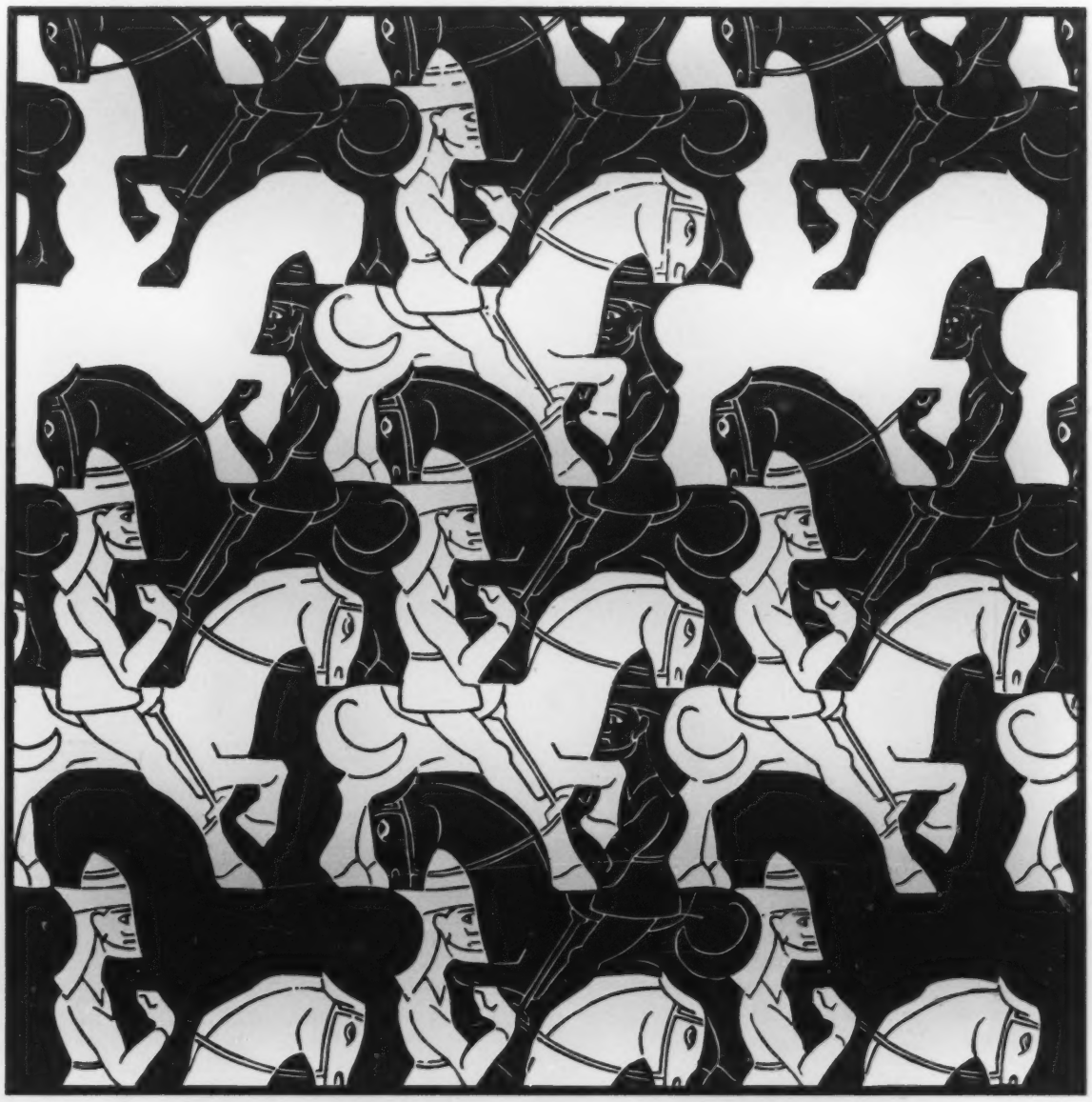
Progress on the other electronic trading system — developed by Jefferies & Co. Inc., Los Angeles, and being marketed by the consulting firm BARRA, Berkeley, Calif. — continues.

"We've been testing and just getting ready," said Donald L. Luskin, senior vice president in the Chicago office of Jefferies. ■

Corrections & clarifications

• The estimate of assets **Leland O'Brien Rubinstein Associates Inc.**, Los Angeles, has under management in its portfolio insurance programs is $22 billion. A table in the April 20 issue contained an incorrect figure.

• Mention of **Douglas Sheldon,** senior investment officer-real estate, was omitted inadvertently from the questionnaire submitted by the California State Teachers' Retirement System for inclusion in the Jan. 26 profile issue.



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Corporate Finance

Firms drop currency swap

By Marci Baker

Although the volatile foreign exchange and interest rate environments generally are keeping U.S. issuers out of the international financing arena, some U.S. corporations have begun to go after cheaper financing through the issuance of unhedged currency-based bond offerings.

Exceptions exist, but the weak dollar and uncertain U.S. interest rate environment have contributed to making swap-driven, currency-related deals uneconomic for U.S. issuers.

Non-dollar debt offerings, however, can provide savings on financing costs for some companies willing to forgo the swap and retain the exposure to fluctuations in the exchange rates, issuers and investment bankers said.

A few U.S. issuers already have dabbled in the concept. The Black & Decker Corp., Towson, Md.; IBM Corp., Armonk, N.Y.; The Dow Chemical Co., Midland, Mich.; and Chevron Corp., San Francisco, issued debt denominated in Swiss francs and deutsche marks earlier this year.

None of these transactions included full currency swaps, although investment bankers said some might have been partially hedged with swaps or forward contracts to reduce currency risk on interest payments.

Moreover, General Motors Corp., Detroit, raised debt last May, but opted against swapping the interest and principal obligations into U.S. dollars.

"You may start to see some more issuers doing (unhedged offerings)," said William Schroth, managing director at First Boston Corp., New York. "There are a good deal of people talking about it."

Andreas Tobler, vice president at Credit Suisse, agreed, adding the greatest prospects for unhedged or partially hedged currency transactions lie with the lowest coupon markets, including Japan, West Germany and Switzerland.

Coupons on currency-denominated issues in these markets can be three to four percentage points lower than rates on comparable offerings in the U.S. market, investment bankers explained. At the same time, the dollar has depreciated substantially against the yen, deutsche mark and Swiss franc.

Further declines in the dollar's value would narrow the gap between the non-dollar and would-be dollar-based cost of financing, because the issuer's foreign exchange costs associated with making interest and principal payments would increase. That drop in the dollar would have to be substantial, however, before the cost advantage would be eliminated.

Meanwhile, the issuer would benefit further if the dollar began to climb against the issuing currency.

Issuers launching unhedged currency-based transactions generally have operations in the countries in which their deals have been sold. Plus, they already have done non-dollar deals and are comfortable working with foreign currencies.

Some issuers are doing the transactions to meet funding obligations in those currencies, while others have launched deals for the currency play.

Black & Decker in February raised money to pay off $100 million in Eurobonds carrying a 9⅛% coupon through an offering of 5⅞% notes denominated in deutsche marks.

"We have very significant deutsche mark exposure through our manufacturing operations in Germany," said Stephen Page, treasurer, explaining the company's decision not to swap its new obligation into U.S. dollars.

The currency exposure is not a concern for accounting purposes, he added: "The currency fluctuations are a special equity item for accounting purposes, so there's no consequence to the profit and loss statement."

Like Black & Decker, Dow Chemical has operations in foreign countries, including Switzerland, although meeting Swiss franc funding obligations was not the main reason for its recent note offering in that currency. Rather, it was done for the currency and interest rate play.

The company raised roughly $130 million through a 200 million Swiss franc offering of 12-year notes carrying a 4¾% coupon. A comparable U.S. offering at the time would have carried an 8% to 8½% coupon.

"We were looking around for alternative financing opportunities. Swiss franc rates were more attractive than U.S. dollar rates," said Robert Lafferty, manager-funding operations.

Dow also ran estimates on how much the dollar would have to decline against the Swiss franc before the cost of the currency transaction would "break even" with a comparable dollar transaction. "The drop would have to be fairly substantial before the issue would become more expensive to us than a dollar offering," Mr. Lafferty said.

Despite the example set by Dow and others that have engaged in unhedged currency-denominated debt deals, the majority of U.S. issuers will wait for swap-driven financing opportunities to arise.

"I have a hard time believing that companies would want to engage in outright (currency) speculation when it comes to their liabilities," said Ken Sullivan, managing director at Drexel Burnham Lambert Inc., New York.

John Lipsky, vice president at Salomon Brothers Inc., New York, agreed, noting the swap market has evolved because most corporations don't view debt financing as an appropriate avenue for speculating in foreign currencies.

"If you issue without a swap, what you are essentially doing is playing in the currency markets," said the chief financial officer at a major U.S. bank. "I can make currency plays in other ways. I don't need to do it with my debt offerings."

"U.S. corporations are conservative and don't like to go unhedged in currency-based offerings," said a banker at Yamaichi International Inc. Predictions that more companies would enter into unhedged deals may be more rhetoric from Wall Street firms than an actual trend, he said.

He conceded, however, that issuing in yen without a swap is a way to achieve attractive financing in the current non-dollar environment. "After you add in the

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TV anchors bank deal

By Brad Rudin

HEWLETT, N.Y. — When Anchor Savings Bank decided to go public, the use of television to advertise the offering came as easily as switching on the set.

The use of television to promote the public offering, a rare practice, helped the bank raise gross proceeds of $202.3 million.

"We're just doing what we've always done," said Dor.ald L. Thomas, chairman and chief executive officer and a veteran of almost two decades in front of the camera on behalf of Anchor.

Anchor, the 15th largest thrift in the country, operates 132 branch offices in New York, New Jersey, Florida and Georgia. It added 104 offices from 1981 to 1985 by acquiring 13 troubled thrift institutions.

In addition to diversifying its geogra-

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Barbara and Donald L. Thomas used TV to promote a public offering.

Pace of credit downgrades slows in first quarter

By Brad Rudin

Although the number of downgrades continued to outpace the number of upgrades, the downward slide of corporate credit quality slowed during the first quarter.

The five credit-rating agencies handed out 186 downgrades and 89 upgrades in the first quarter compared with 211 downgrades and 87 upgrades in the fourth quarter of 1986.

"Corporate credit quality stabilized somewhat in early 1987," according to a Standard & Poor's Corp., New York, statement announcing the first-quarter rating results.

Restructurings continued to inject an additional element of risk in corporate debt, the Standard & Poor's statement said.

For example, S&P downgraded Goodyear Tire & Rubber Co., Akron, Ohio, to reflect asset sales that will be used to fund most of the company's $2.6 billion stock repurchase plan, which followed Sir James Goldsmith's unsuccessful bid for the company.

All five credit-rating agencies handed out more downgrades than upgrades, but the proportion of downgrades to total rating actions dipped at two agencies. Downgrades amounted to 66% of the first-quarter rating actions taken by Moody's Investors Service, New York, compared with 83% in the fourth quarter of last year. At Duff & Phelps Inc., Chicago, the percentage of downgrades to total actions edged down to 60% from 61% in the previous quarter.

Downgrades accounted for 74% of Standard & Poor's ratings actions in the first quarter, up two percentage points from the last quarter of 1986. Analysts at Fitch Investors Service Inc., New York, decided on downgrades in 71% of their rating actions in the first quarter, up from 57% during the fourth quarter. At McCarthy, Crisanti & Maffei Inc., New York, analysts handed out downgrades in 53% of their first-quarter rating actions compared with 46% in the previous quarter.

Deteriorating credit quality among financial institutions emerged as a theme in the first-quarter data made available by the rating agencies. Both Standard & Poor's and Moody's reported the lower quality of assets held by banks contributed to the downgrades.

Moody's, citing the banks' exposure to energy and real estate loans, downgraded MCorp., Dallas, Allied Bancshares Inc., Houston and RepublicBank Corp., Dallas. In the RepublicBank action, the agency also cited the proposed merger with InterFirst Bank Dallas N.A. InterFirst suffers from weaker asset quality than RepublicBank, Moody's said.

Chase Manhattan Corp.'s rating by Moody's slipped because of "competitive pressure on the company's core business franchise," according to an agency report. Moody's downgraded Merrill Lynch & Co., saying the investment bank's commitment to merchant banking raises the risk of its debt issues.

The utilities presented a brighter picture, according to Standard & Poor's, which gave this sector the distinction of being the only group among five to receive more upgrades than downgrades.

Overall, the rating agencies seemed cautiously optimistic about credit quality.

"For the remainder of the year, we would expect a better balance between upgrades and downgrades, barring the resurgence of takeover mania," said William A. Cornish, chairman of the credit-rating committee at Duff & Phelps. Mr. Cornish, in a statement, pointed to cost reductions and the sale of "subpar operations" as reasons for the optimistic outlook.

In its statement, Moody's predicted "downgrades of corporations and financial institutions will continue to outpace upgrades by a substantial margin during 1987 — though to a lesser degree during 1986." A prolonged decline of the dollar, an increase in interest rates, higher oil prices and shaky loans to less developed countries could exert additional pressure on credit quality, Moody's added in a more negative note.

Economists from outside the credit-rating agencies offered an optimistic short-term view of credit quality, saying the dollar's

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Corporate credit rating changes

	1st quarter 1987		4th quarter 1986		1st quarter 1986	
	Up	Down	Up	Down	Up	Down
Duff & Phelps	21	31	15	23	15	23
Fitch Investors Service	7	17	6	8	10	7
McCarthy, Crisanti & Maffei	8	9	15	13	9	18
Moody's Investors Service	25	50	15	75	35	78
Standard & Poor's	28	79	36	92	22	76

Source: Data from the rating services

TV deal . . .

Continued from page 21

phic base, Anchor has been boosting non-interest sources of income by emphasizing the sale of assets and fees from loan origination and servicing.

The bank recently sold 17,595,000 shares in a subscription offering that converted it to a federally chartered stock from a federally chartered mutual savings bank. Because of strong investor demand, the bank offered more than the 15,300,000 shares indicated in the offering circular.

Each share sold for $11.50, the top of the range indicated in the circular.

Pleased by investor response to the offering, Mr. Thomas hailed Anchor as being "the first thrift institution that completely sold out its offering through the community without the help of Wall Street."

In a subscription offering, shares are offered to customers and employees. People who live in counties where the bank has offices also are eligible to buy stock.

If the subscription offering had failed to sell all the shares, a syndicate made up of Salomon Brothers Inc., Goldman, Sachs & Co., Prudential-Bache Securities Inc., Shearson Lehman Brothers Inc. and Smith Barney, Harris Upham & Co., all of New York, would have underwritten a public offering of the unsold shares.

Madison Avenue likely helped to make the services of Wall Street unnecessary.

Anchor has used television in its efforts to transform itself into a regional banking network with assets of $7.3 billion from a local bank with $260 million in assets.

"My wife and I have been on television for 18 years," said Mr. Thomas, who joined the bank in 1966. "We've been beating the drums for a long time."

Barbara Thomas suggested a part for herself in the commercials, saying her presence would underscore the bank's commitment to equal opportunity for women, Mr. Thomas recalled. "She earns $1 a year and she does it just to help me out."

Their tag line, "Your Anchor banker, he understands; your Anchor banker, she understands," is one of those familiar lines television viewers anticipate.

"We've got great recognition," Mr. Thomas said. "We've been stopped in London, Rio de Janeiro, Buenos Aires and Singapore. It's amazing the recognition you get from TV."

Mr. Thomas will get an extra measure of recognition from investors if he can continue to improve the bank's once-doleful, bottom-line performance. Anchor suffered net losses from 1982 through 1985, turning the corner last year with a profit of $41.2 million.

During the early 1980s, when thrifts began living with deregulation, Anchor found itself squeezed between savings accounts that reflected changing money market rates and long-term fixed-rate mortgage loans. The reduced spread between the income earned by the bank's assets and the cost of its funds contributed to operating losses that moved to $53.2 million in 1985 from $7.4 million in 1982.

The bank's return to profitability rests on the reduced cost of funds resulting from lower interest rates and a strategy that reduces its sensitivity to interest-rate fluctuations.

Anchor in the past several years has tried to improve its asset/liability management by selling its long-term fixed-rate loans and buying shorter-term or variable-rate instruments with the proceeds.

The bank also has sought to insulate itself from interest-rate risk by expanding the fee-generating services available to customers. Anchor intends to establish an investment management unit and a trust department after getting regulatory approval.

Medical benefits timetable set

STAMFORD, Conn. — A definitive statement by the Financial Accounting Standards Board on the accounting treatment of retiree medical benefit liabilities, which experts claim could exceed an organization's net worth in many cases, will not be forthcoming until after the first quarter of 1989.

The seven-member board has established a general timetable leading up to the final statement. In a bulletin to clients, the international consulting firm of William M. Mercer-Meidinger-Hansen Inc. reported the timetable includes an exposure draft of the accounting statement during the first quarter of 1988 followed by public hearings on the issue in the third quarter of 1988. A final statement is scheduled to be released in the first quarter of 1989 with the effective date yet to be determined.

Michael Merlob, an associate in the Stamford office of Mercer-Meidinger-Hansen who prepared the bulletin, said "it is quite clear from the tone of the meetings that recognizing the cost of other post-employment benefits is an issue that employers will have to address."

The cost of post-retirement health benefits to corporations is a potentially formidable problem because liabilities in many of these plans have been mounting and few companies pre-fund retiree medical liabilities.

Many benefit experts claim when the FASB statement requires recognition of these liabilities, employers' balance sheets may reflect drastic changes.

"Employers may soon have to make some difficult decisions about their post-retirement benefit plans," Mr. Merlob wrote.

Among the decisions employers will face will be, "whether to reduce their potential exposures."

In order to make these decisions on an informed basis, employers will need information such as a detailed analysis of current retiree medical costs, he wrote. ■

Firms dropping currency . . .

Continued from page 21

cost of the swap, there's no net advantage over doing a straight dollar deal domestically," he said.

Not surprisingly then, many U.S. companies are preferring to wait out the uncertainty in the currency and interest rate environments.

"We are always looking for financing opportunities, but it's difficult to do anything cost effectively right now," said Mitch Johnson, senior vice president-corporate finance at the Student Loan Marketing Association, Washington. "Issuers and investors both are sitting on the sidelines until some direction in the markets becomes clearer."

If companies must raise capital, especially of any size, "the only market to go to is really the domestic market," said Mr. Tobler.

But some overseas or non-dollar financing opportunities have come up, particularly for high-quality industrial and financial concerns.

For U.S. issuers, there has been a real shift toward the less volatile, higher-yielding currencies, where issuers can still get cheaper all-in financing after swapping obligations into dollars, Mr. Lipsky said. In particular, demand has remained strong for Australian and New Zealand dollar-denominated offerings launched in the United States.

Increased demand by Japanese investors late last month led foreign and U.S. issuers, including Morgan Guaranty Trust Co., Morgan Stanley Group Inc. and the World Bank, to launch yen-denominated offerings.

The greatest potential overseas has been and continues to be with equity-linked transactions, Mr. Sullivan said.

The world stock markets are booming and investors are eager to buy equity-linked deals, both in the Eurodollar and currency markets, said Mr. Tobler.

Japanese issuers have been the most active issuers lately of Euro-convertibles or debt with equity warrants. Some U.S. corporations have participated as well. Cetus Corp. raised $100 million in late April with an offering of 15-year convertible Eurobonds.

Other issuers, meanwhile, have sought to stimulate lackluster demand in the Eurodollar market with offerings of Eurodollar debt with gold warrants.

But as long as the value of the dollar remains uncertain, overseas investors will not have a taste for dollar issues. Only one-third of overall international issuance has been dollar-denominated so far this year, a decline from 1986 when 55% was done in dollars, said Mr. Lipsky. ■

Credit . . .

Continued from page 21

decline to date will bolster corporate balance sheets and credit quality.

Increases in the prices of imported goods will enable U.S. manufacturers to boost their own prices, a development that augurs well for profits because unions do not have the clout to push up wages, said Stan Shipley, an economist at E.F. Hutton & Co., New York.

In the short term, the trade advantages produced by the declining dollar offset the devalued dollar's upward pressure on interest rates, said Neal M. Soss, chief economist at First Boston Corp., New York. A prolonged uptick in interest rates would weaken the economy and erode credit quality, he said.

Some of the good news coming from the rating agencies is the result of companies raising equity to replace debt, said David D. Hale, chief economist at Kemper Financial Services Inc., Chicago. "I think what you are looking at is the counterpart to the big stock market boom."

A healthy equity market will support credit quality for the next few quarters, but the longer term prognosis remains clouded by the possibility of a recession in 1988 or 1989, Mr. Hale said. ■

New issues of corporate securities

March 30 — April 2

Issue date	Company	Amount ($ mil.)	Type of security	Offering price Debt (%) Share ($)	Gross spread as % offer price	Where traded (to list)	Managers
Debt							
3/31	CMO Trust 27	748.13	GNMA CMO	99.19%	.504	OTC	Salomon Brothers
4/2	M.D.C. Asset Investors Trust III	363.00	FHLMC CMO	99.97%	.600	OTC	Salomon Brothers
4/3	GS Trust 2	310.02	FHLMC CMO	99.91%	.571	OTC	Goldman, Sachs
3/31	Collateralized Mortgage Securities	301.50	FHLMC CMO	100.00%	.575	OTC	First Boston
4/3	Citicorp	300.00	Sub. Cap. Note	99.64%	.677	OTC	Salomon/Merrill Lynch/Shearson Lehman
3/31	FBC Mortgage Securities Trust XIII	250.00	FHLMC CMO	99.94%	.500	OTC	First Boston
4/1	ML Trust XII	201.00	FNMA CMO	99.75%	.877	OTC	Merrill Lynch
4/3	Bank of New England Corp.	200.00	Sub. Cap. Note	99.20%	.680	OTC	MS/KEEFE/GS/MLCM*
4/1	Reynolds Metals Co.	200.00	Cvt. Sub. Deb.	100.00%	2.000	NY	Goldman, Sachs
4/1	ML Trust XII	177.00	FNMA CMO	99.91%	.500	OTC	Merrill Lynch
Common Stock							
4/1	UAL Inc.	226.00		$56.50	2.00	NY/MW/PC	Morgan Stanley/Merrill Lynch
4/1	Georgia Gulf Corp.	137.00		$34.25	4.09	OTC	Goldman, Sachs
4/3	Newmont Gold Co.	124.00		$31.00	3.55	NY	Kidder, Peabody/Lazard Freres/Salomon
4/1	ASARCO Inc.	78.80		$22.50	4.00	NY	First Boston
3/31	Western Investment Real Estate Trust	69.60		$19.88	5.74	AM	Merrill Lynch/Donaldson, Lufkin & Jenrette/A.G. Edwards
4/2	The Cherokee Group	55.00		$22.00	4.00	OTC	First Boston/Shearson Lehman
4/1	Homestead Financial Corp.	38.10		$10.88	5.70	NY	Drexel Burnham Lambert/Merrill Lynch
4/3	Hadson Corp.	34.00		$8.50	5.88	OTC	Shearson Lehman/PaineWebber
4/1	A.M.E. Inc.	23.60		$13.50	6.96	IPO	Merrill Lynch
4/2	Portage Industries Inc.	10.30		$7.50	8.00	IPO (AM)	Ingham Becker & Co.

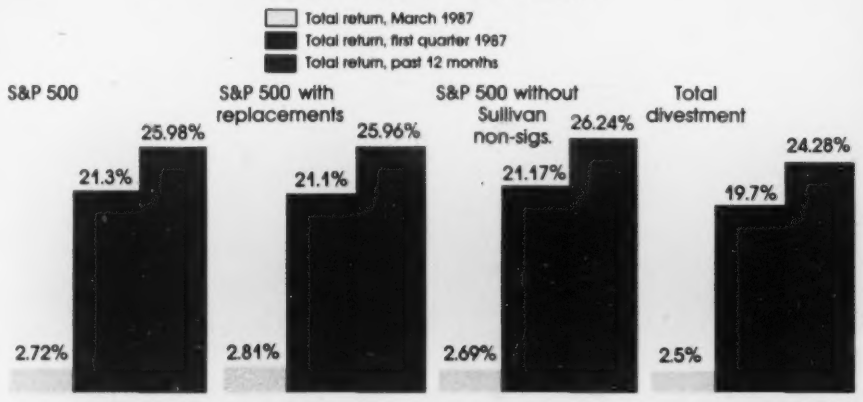
Statistically speaking

The Statistically Speaking page offers an at-a-glance look at statistics for the latest quarter.

The Wilshire South Africa Free Index, Mercer-Meidinger bullet GIC data, First Chicago's MMI and the Russell 3000 returns will appear regularly.

Other data will be used as time and space allow.

South Africa Free Index



Source: Wilshire Associates, Santa Monica, Calif.

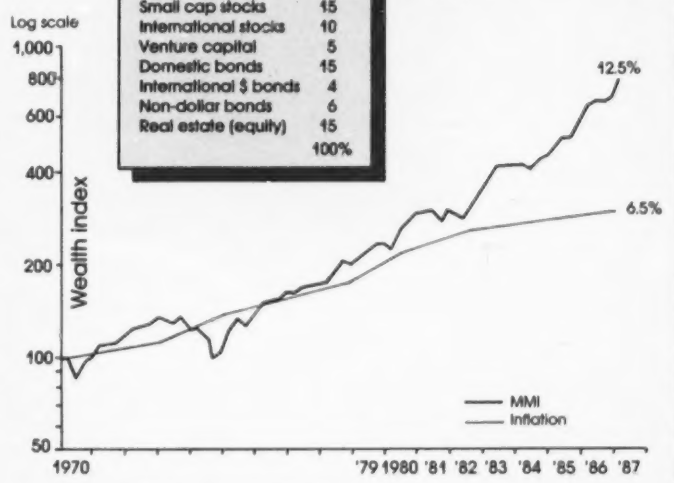
S&P 500 with replacements: replaces a South Africa-related company with next largest company in the industry. **S&P 500 without Sullivan non-signatories:** excludes 20 companies, no replacements. **Total divestment:** eliminates all companies with South Africa involvement, no replacements.

Multiple Markets Index

The Multiple Markets Index is a benchmark for total portfolio returns. It is composed of eight asset classes used by retirement plan executives; it is calibrated to reflect the same degree of risk of the typical pension portfolio; it uses passive fixed policy weights; and it represents the individual asset classes by the broadest and most complete market return data available.

	Weights
Large cap stocks	30%
Small cap stocks	15
International stocks	10
Venture capital	5
Domestic bonds	15
International $ bonds	4
Non-dollar bonds	6
Real estate (equity)	15
	100%

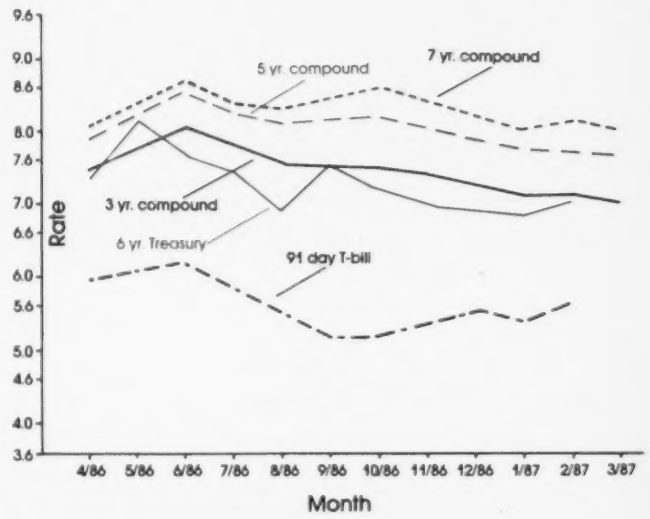
Five-year annualized return	22.2%
One-year return	20.9%
Latest quarter	13.4%



12/31/69 = 100 Data through 3/31/87

Source: First Chicago Investment Advisors, Chicago

William M. Mercer-Meidinger-Hansen Inc. summary of average bullet GIC data vs. market yields ($ millions)



Source: William M. Mercer-Meidinger Inc., Louisville, Ky.

First quarter 1987 returns

	Russell 3000	Russell 1000	Russell 1000 by market capitalization				Russell 2000
			Large	Medium/large	Medium	Medium/small	
Technology	30.6%	30.6%	27.1%	33.4%	40.7%	31.2%	30.7%
Health care	26.1	25.8	23.8	30.9	25.4	27.6	28.2
Consumer discretionary	24.5	24.9	24.7	26.5	24.4	22.4	21.9
Consumer staples	19.7	19.6	18.2	21.9	19	15	21.7
Integrated oils	25.4	25.4	25	33.1	15.6	23.5	13.7
Other energy	26.7	25.7	—	27.1	22.8	28.7	34.5
Materials and processing	28.4	28.6	34.8	24.7	29.9	28.3	27.6
Producer durables	19.6	19	2.2	20	23.4	19.3	23.5
Auto and transportation	22.8	23.3	32.6	22.4	16.3	20.2	16
Financial services	13.1	12.7	20.7	9.1	11.9	14.7	17.4
Utilities	3.4	3.2	2	3.7	3.9	6.1	12.5
Total	20.6	20.2	20.3	20.2	20	20.4	24.3

Source: Frank Russell Co., Tacoma, Wash.